



Performance Audit and 2012 Financial Review of the Emergency Medical Services Levy

**Laina Poon
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**September 26, 2013
Report No. 2013-07**

Executive Summary

Although overhead charges to the Emergency Medical Services Division (EMS) increased by 51 percent in 2013, the charges were generally distributed appropriately to the Division and the King County Medic One Program. Equity could be improved in a few cases. EMS took steps to improve the accountability, transparency and cost-effectiveness of its Strategic Initiative Program; however it did not quantify financial benefits of some strategic initiatives before expanding them into regional services.



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MEMORANDUM

DATE: September 26, 2013

TO: Metropolitan King County Councilmembers

FROM: Kymber Waltnunson, County Auditor

SUBJECT: Performance Audit and 2012 Financial Review of the EMS Levy

Attached for your review is the Performance Audit and 2012 Financial Review of the Emergency Medical Services (EMS) Levy. This is the fifth audit mandated by Ordinance 15862. The primary objectives of the audit were threefold. First, we reviewed the major drivers of the increase in EMS overhead charges. Second, we evaluated analysis supporting the expansion of strategic initiatives into regional services and the selection of new strategic initiatives for the 2014-2019 levy. Third, we assessed whether the 2012 EMS levy financial activities complied with the council-adopted annual financial plan.

We found that King County's overhead charges to the EMS Division, which increased by \$1 million (51 percent) in 2013, were generally distributed appropriately, although equity could be improved in a few cases. EMS improved the accountability, transparency and cost effectiveness of its Strategic Initiative Program, but did not quantify financial benefits of some strategic initiatives before expanding them into regional services. Finally, EMS managed its financial activities in accordance with the 2012 EMS Levy Financial Plan and Policies.

The Executive's response to the audit concurred with the audit findings, and is contained in the appendices of the report.

Laina Poon, Senior Management Auditor, conducted this audit under the supervision of Susan Baugh, Senior Principal Management Auditor. Please contact Laina Poon at 206-477-1045 if you have any questions about this audit.

The Auditor's Office sincerely appreciates the assistance and cooperation received from the management and staff of the Department of Public Health, the EMS Division and regional partners, and King County Medic One.



Performance Audit and 2012 Financial Review of the EMS Levy

Report Highlights

September 26, 2013

Report No. 2013-07

Purpose

The primary purposes of the Performance Audit and 2012 Financial Review of the Emergency Medical Services levy were threefold: 1) review the major drivers of the increase in overhead charges to the EMS levy fund from 2012 to 2013 and how the EMS Division allocates those charges to its programs; 2) evaluate the analysis supporting the expansion of strategic initiatives into regional services and the selection of new strategic initiatives; and 3) assess the compliance of the 2012 EMS levy financial activities with the adopted financial plan.

Key Audit Findings

Key audit findings included:

- EMS's overhead increased by 51 percent primarily due to changes in the County's distribution methodology.
- Overhead charges to EMS and its programs generally represented benefits received, but equity could be improved in a few cases.
- EMS took steps to enhance the accountability, transparency and cost-effectiveness of its Strategic Initiatives Program by developing and reporting on some performance measures.
- EMS did not quantify financial benefits for several of the strategic initiatives prior to expanding them into regional services.
- EMS managed the 2012 EMS levy in compliance with the council-adopted financial plan.

What We Recommend

To improve the equity of overhead distribution, we recommend that Public Health merge the Consolidated Contract Oversight category into the Accounting, Budget, and Financial Services category and EMS include the King County Medic One Program in distributing Facilities Management overhead charges. In addition, we recommended that EMS continue to take steps to quantify and report the financial benefits of strategic initiatives intended to contain costs or gain efficiencies.

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I. Increase in EMS Overhead

Section Summary

Although distributed appropriately, overhead charges to the Emergency Medical Services (EMS) Division increased by 51 percent between 2012 and 2013. The increased overhead charges may require EMS and King County Medic One (KCM1) to identify and implement efficiencies as well as tap reserve funds and/or program balances to sustain operations through the 2014-2019 EMS levy.

Background

Emergency medical services in King County are funded through a six-year levy. Levy funds are allocated to five main areas: Advanced Life Support (ALS), Basic Life Support (BLS), Regional Services (RS), Strategic Initiatives (SI), and reserves. ALS and BLS services are provided through contracts with partnering fire agencies except for KCM1, which is a program within the EMS division providing ALS services to south King County. EMS distributes overhead to RS and SI jointly as RS&SI, and to KCM1.

EMS overhead increased by 51 percent due to changes in distribution method

The EMS Division's total overhead charges increased 51 percent, from approximately \$2.1 million in 2012 to approximately \$3.1 million in 2013. The main driver for the increase was King County's shift in the method used to distribute overhead. King County replaced the ARMS financial system with the Oracle Enterprise Business Solutions system (EBS), which did not have the capacity to distribute overhead using full-time equivalents (FTEs). Instead, it distributes overhead according to earnings on a countywide basis.¹ Exhibit A describes the impact of this change.

Exhibit A: EMS Overhead Increased in Each Cost Category Due to Change from FTE-Based to Earnings-Based Distribution Method

Overhead Cost Category	2012 FTE Method	2013 Earnings Method	Increase
Information Technology	\$454,532	\$882,194	94%
Policy, Oversight, & Communications	\$295,491	\$488,104	65%
Payroll & Human Resources	\$251,046	\$361,551	44%
Other Public Health Overhead	\$85,013	\$122,288	44%
King County Central Rates	\$617,380	\$800,434	30%
Finance, Accounting & Contracts	\$365,821	\$466,286	27%
TOTAL	\$2,069,283	\$3,120,857	51%

Source: KCAO analysis of EMS and Public Health 2012 actual cost and 2013 adopted budget data.

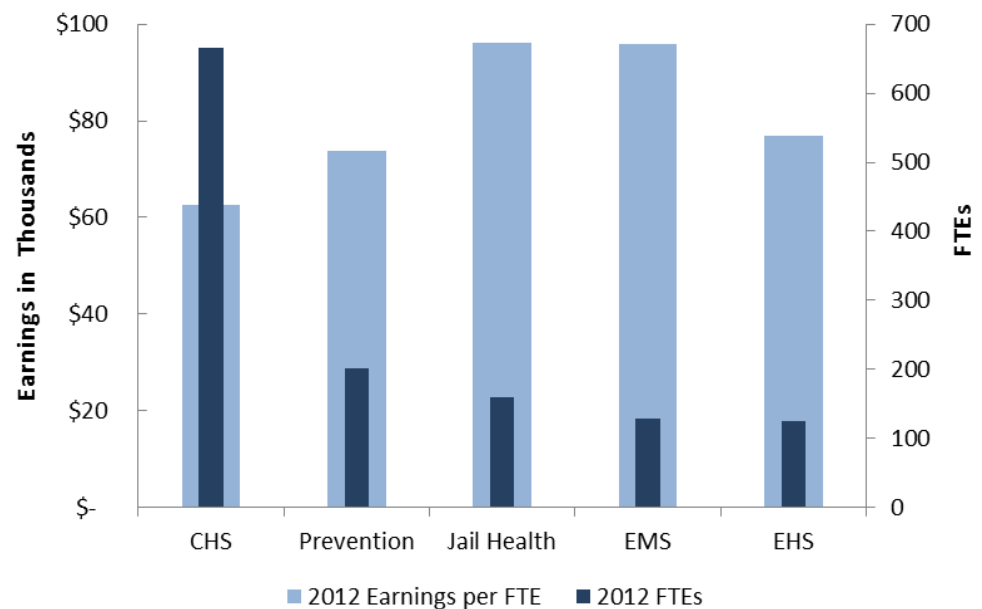
¹ The earnings-based method of distributing overhead includes salaries for regular and temporary employees as well as overtime.

I. Increase in EMS Overhead

Because more than half of EMS staff are paramedics who earn high salaries and overtime wages, earnings per FTE in the EMS Division are higher than those in other Public Health divisions. In addition, paramedics provide critical services, so where an office worker could stay home sick without a replacement, a sick paramedic must often be replaced by a paramedic working overtime. Therefore, the EMS Division incurred a larger share of overhead when the County shifted from distributing overhead using an FTE-based to an earnings-based method. Please see Appendix 1 for changes in distribution methods by overhead cost category.

As shown in Exhibit B, changing the overhead distribution from FTEs to a new method based on earnings primarily benefits the Community Health Services (CHS) Division because it has many staff with lower overall earnings, and disadvantages EMS because it has fewer staff with higher overall earnings.

Exhibit B:
EMS' Higher
Earnings and Fewer
FTEs Results in a
Larger Share of
Overhead Under
New Earnings-Based
Distribution Method



Source: King County Auditor's Office analysis of Department of Public Health data.

EMS may draw on reserves or program balances to pay increased overhead charges in the 2014-2019 EMS levy period

The full magnitude of the increase in overhead charges was unanticipated and will exceed EMS' program allocations. EMS management was aware that the change to the new financial system would increase overhead charges, but did not know the full extent of the increase until too late in the 2014-2019 levy planning process to make changes. However, EMS used conservative revenue assumptions so that unanticipated costs could be absorbed within the levy

I. Increase in EMS Overhead

financial plan. EMS will be able to pay the increased overhead charges, but will have to draw heavily on both the RS&SI and KCM1 program balance reserves to do so. Moreover, by the end of the next six-year levy period, EMS may also need to draw on Operational Reserves to pay for RS&SI overhead.

Regional services and strategic initiatives may have to tap EMS operational reserves to cover increased overhead

EMS will be able to absorb increased overhead costs in 2013 using savings accumulated over the course of the 2008-2013 levy period. In 2014, RS&SI overhead is projected to be approximately \$500,000 more than planned. RS&SI will absorb some of this within its budget and is planning on using approximately \$310,000 of the program balance to cover the difference. EMS finance staff project that RS&SI has enough funds in its program balance to cover one to two years of increased overhead. Unless it can identify and implement additional efficiencies, RS&SI may request use of EMS Operational Reserves to cover overhead costs exceeding its program balance.

Increased overhead payments will greatly reduce KCM1's contingency fund

KCM1 has sufficient program balances to pay the increased charges for the remainder of the current levy period. However, doing so would reduce the current program balance by 82 percent.² EMS finance officials projected that KCM1 will have only a small contingency fund of around \$450,000 by the end of the next levy period. If an unexpected event occurred that could not be managed within its budget allocation or available program balance, KCM1 could request use of Advanced Life Support (ALS) Reserves for non-overhead expenses.³

**Public Health's
guiding principles
for distributing
overhead are
consistent with
best practices**

Overhead charges should be distributed according to benefits received, or other reasonable and consistent basis.⁴ Public Health developed its distribution methods using the following three principles:

- Compliance - methods should support the agency's compliance with applicable countywide policy.
- Efficiency - methods should leverage the automation available in the

² This assumes an increase of no more than six percent per year.

³ ALS overhead is not an allowed use of EMS reserves.

⁴ Best practices from "Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government" ASMB C-10, published April 1997.

I. Increase in EMS Overhead

county's new financial system to distribute overhead using salaries and wages to the extent possible without imparting undue bias.

- Equity - overhead categories that only apply to some divisions should be distributed manually unless the value of charges is inconsequential.

Public Health distributed most overhead charges appropriately

In nine of the eleven instances where Public Health distributed overhead using the earnings-based method, we found that the charges reflected benefits received. For example, this method fairly charged EMS for payroll costs. EMS has more complex collective bargaining unit terms that require complicated and expensive payment and payroll processes. In this case, distributing overhead charges by number of FTEs rather than earnings understated the amount of benefit EMS received in the past.

In other cases, the earnings-based method overstates the benefit received, but the impact is relatively minor. For example, the Consolidated Contract Oversight overhead cost category refers to a single FTE employed to administer a \$63 million public health services contract with the State of Washington. EMS receives approximately \$1,000 from the State Trauma Council through the Consolidated Contract. Costs of administering the contract are distributed across the department using the earnings-based method. This results in EMS paying \$27,186 for an overhead cost category for which it receives minimal benefit.⁵

Four percent of the increase in EMS' overhead attributable to overcharges

The choice to use the earnings-based method was in line with Public Health's guiding principles, which state that inequity can be allowed if the value of charges is inconsequential. The two overhead categories where the earnings-based method did not reflect benefits received only contributed about four percent of the total increase in overhead. Public Health officials stated that the cost of manually distributing these two small post pools by another method would be greater than the costs of bearing the small inequity.

Merging two cost categories would increase equity and reduce EMS' overhead by about \$20,000 without additional administrative costs

⁵ The other instance where the earnings-based method may overcharge EMS is the Board of Health overhead cost category. The Board of Health does not provide the same degree of governance to EMS as it does to other Public Health divisions.

I. Increase in EMS Overhead

Recommendation I

We recommend that Public Health merge the Consolidated Contracts Oversight overhead category into the Accounting, Budget, and Financial Services category (which is distributed by transaction count instead of earnings) to increase equity. EMS represents 11.6 percent of the department's earnings, but only 3.3 percent of its transaction count. This action would reduce EMS share of Consolidated Contracts Oversight by 76 percent without Public Health incurring any additional cost.

Distributing overhead by earnings leverages efficiencies available in the EBS financial system

Although the disadvantages of using the earnings-based method to distribute overhead were minor, the advantages of this method were significant.

Advantages include:

- Distributes overhead automatically based on earnings, which is much more efficient than manually distributing charges.
- Provides a more straightforward calculation than FTEs and is not subject to human interpretation.
- Improves transparency and consistency across the county.

Increased IT overhead charges are equitable given EMS' specialized technology and services

About 40 percent of the increase in overhead charges to EMS is attributable to information technology (IT) costs. Our analysis indicated that these charges are justified, although a more thorough analysis would be beneficial to fully validate the specific benefit and cost relationships embedded in IT overhead charges for the EMS Division.

Public Health explained the selection of the earnings-based method for distributing IT overhead costs by stating that programs with higher average compensation typically require more automation, more expensive software licenses, and more technical support. The earnings-based distribution method serves as a reasonable proxy for the complexity of the support required by users without tying the distribution to any specific technology or device.

IT charges may reflect economies of scale for Public Health Divisions

Even if EMS does not fully utilize all the IT services purchased, there may be economies of scale in purchasing services in a consolidated bundle with the rest of Public Health. King County Department of Information Technology (KCIT) staff provided a preliminary mock order for EMS to explore the

I. Increase in EMS Overhead

potential costs if the Division ordered IT services independently from Public Health. According to this preliminary KCIT analysis, the total cost for direct and overhead IT services using the independent order would be at least 18 percent higher than the amount EMS currently pays using the earnings-based distribution method.⁶ While an independent IT order for EMS would enhance transparency and provide the division more control over IT costs, the mock order exercise indicates that the division may realize economies of scale by participating in the department-level IT order. EMS officials plan to conduct a more thorough analysis to determine the specific benefits of independently ordering IT services in preparation for the 2015 budget process.

EMS distributed most overhead costs to KCM1 and RS&SI using methods that fairly represent benefits received by the two programs

Of the 13 overhead cost categories, EMS distributed 12 in a manner consistent with best practices. However, one benefited both programs but was charged only to RS&SI: Facilities Management manages all off-site leases, including leases for housing for KCM1 medic units either in stand-alone quarters or within fire stations. Appendix 2 details overhead cost categories and Public Health and EMS distribution methods.

Recommendation 2

We recommend that the Emergency Medical Services Division distribute the Facilities Management overhead cost category using the earnings-based or other equitable method to reflect the actual benefit received by KCM1.

⁶ This preliminary mock order was a rough estimate that would need to be verified and refined significantly if EMS decided to pursue an independent order for IT services.

2. Evaluating Strategic Initiatives

Section Summary

EMS reduced the cost of its Strategic Initiative program by 35 percent by making performance-based management decisions. EMS enhanced the accountability and transparency of the Strategic Initiative Program by developing performance measures and improving the rigor of the process for expanding strategic initiatives into regional services. However, EMS did not quantify cost savings for several of the strategic initiatives designed to control costs and improve efficiency prior to expanding them to become regional services.

Background

The 2008-2013 EMS levy funds four programs: Advanced Life Support Services, Basic Life Support Services, Regional Support Services, and the Strategic Initiative Program. EMS uses strategic initiatives primarily to test projects intended to increase quality of care, gain efficiencies, and contain costs. If the strategic initiatives perform well when deployed over a limited scope, EMS considers expanding and converting them to regional services, where they are generally deployed on a larger basis to serve the region.

Measuring performance enabled EMS to make cost effective decisions

EMS increased the cost-effectiveness of its Strategic Initiative Program by making management decisions based on performance data. The division terminated two of its 2008-2013 strategic initiatives after measuring and documenting their under-performance.⁷ Between the termination of the two initiatives and efforts to streamline the remaining initiatives, EMS reduced program costs by 32 percent (\$2.5 million) over the course of the levy period. EMS used the savings to reduce the tax rate for the 2014-2019 levy.

EMS developed performance measures for strategic initiatives as recommended in our EMS audit published in 2010

In the later years of the 2008-2013 levy period, EMS implemented our audit recommendation to increase accountability and transparency of the strategic initiative program by developing performance measures, analyzing performance, and communicating the results. Specifically, it:

- Established performance measures for 11 of the strategic initiatives.
- Reported the status of the strategic initiatives in achieving their objectives to stakeholders on an annual basis beginning in 2011.
- Planned to develop performance measures for the initiatives proposed for the 2014-2019 levy.

⁷ The Grants Writing Initiative was discontinued early in the levy cycle due to the lack of expected revenue. The All Hazards Emergency Management initiative was discontinued to avoid duplication with other relevant local planning efforts.

2. Evaluating Strategic Initiatives

EMS improved the rigor of the process to expand strategic initiatives as ongoing regional services

EMS provided more thorough information and enhanced the inclusiveness of the review and approval process since the last time it converted strategic initiatives to regional services in 2008. EMS actively involved the partnering fire agencies that provide ALS and BLS services, elected officials and other stakeholders to review program data and approve the expansion of selected strategic initiatives.

EMS did not quantify benefits of some initiatives prior to expansion into regional services

Although EMS measured the performance of the 2008-2013 strategic initiatives, it did not quantify financial benefits of some initiatives before expanding them into regional services. It is particularly important to quantify benefits where possible to inform decision-makers as they determine whether initiatives are ready for expansion into regional services. Although quantifying benefits may be difficult for initiatives without financial goals, benefits from initiatives intended to contain costs or gain efficiencies should be quantified. Exhibit C below identifies the current strategic initiatives that will be expanded into regional services during the next levy period, and whether or not EMS quantified efficiencies or cost containment achieved.

2. Evaluating Strategic Initiatives

Exhibit C: EMS Has Not Quantified the Monetary Benefits of Some Strategic Initiatives Intended to Contain Costs or Gain Efficiencies

Strategic Initiatives Selected for Expansion to Regional Services in the 2014 – 2019 levy	Goals					Cost Savings or Efficiency Quantified	Targets Established	Targets Measured
	Contain Costs	Gain Efficiency	Quality of Care	Manage Growth	Planning			
Better Management of Non-Emergency Calls to 9-1-1 → Telephone Referral Program/Nurseline → Taxi Transport Voucher Program	x	x		x		\$1,365,013	Yes	Yes
Enhancements to Competency Based Online Training	x	x	x			\$400,390	Yes	Yes
System Enhanced Network Design		x	x			\$60,115	Yes	Yes
Advanced Dispatcher Training		x	x			No	Yes	Yes
Injury Prevention Community Awareness Program	x			x		No	Yes	Yes
Injury Prevention Grants for BLS Agencies	x			x		No	Yes	Yes
Expanded Countywide Fall Program	x			x		No	Yes	Yes
Criteria Based Dispatch Integration Project		x	x			No	Yes	Yes
Dispatch Center Performance Standards		x	x			No	Yes	Yes
Public Access Defibrillation			x			No	Yes	Yes
EMS Strategic Planning/Levy Planning					x	No	Yes	Yes

Source: KCAO using EMS Division Strategic Plans for 2008 to 2013 and for 2008 to 2012 Annual Reports.

Exhibit C above shows that nine initiatives were intended to contain costs or gain efficiencies, and were sufficiently successful to be expanded as regional services. Information on how much money each initiative saved would have improved transparency of the conversion.

Exhibit D below identifies the EMS's revamped and planned new strategic initiatives for the 2014- 2019 levy. All six of these initiatives are intended to gain efficiencies. The division plans to develop performance measures for these initiatives and should also quantify any financial benefits achieved.

2. Evaluating Strategic Initiatives

Exhibit D: Revamped 2008-2013 Strategic Initiatives and Proposed 2014-2019 Strategic Initiatives Developed to Contain Costs or Gain Efficiencies

Revamped 2008 – 2013 Strategic Initiatives and New 2014 – 2019 Strategic Initiatives	Goals			Strategic Objectives
	Contain Costs	Gain Efficiency	Quality of Care	
Revamped 2008 – 2013 Strategic Initiatives				
BLS Efficiencies	x	x	x	Evaluate and reduce unnecessary EMT requests and BLS transports.
EMS Efficiency and Effectiveness Studies	x	x	x	Provide additional focus on performance measures/outcome metrics and opportunities to improve system.
Community Medical Technician	x	x	x	Provide alternative, cost and resource efficient EMS response to low acuity, non-emergency patients.
New 2014 – 2019 Strategic Initiatives				
Vulnerable Populations		x	x	Provide EMS personnel with better tools to work with patients from vulnerable population to reduce disparities in health status and access to health care in King County.
Regional Records Management System	x	x		Reduce the cost of EMS data management for BLS services and increase timeliness and consistency for analytic purposes.
BLS Lead Agency	x	x	x	Assist smaller BLS agencies with data collection/analysis; case review, procurement and equipment standardization and other economic and quality improvement efforts.

Source: KCAO using EMS Division Strategic Plans for 2008 to 2013 and for 2008 to 2012 Annual Reports.

Recommendation 3

We recommend that EMS develop methods for quantifying the financial benefits of its strategic initiatives intended to contain costs or gain efficiencies during the first year of the 2014 to 2019 levy cycle. The financial benefits should be reported consistently in EMS Annual Reports presented to the County Council and considered prior to expanding initiatives into ongoing Regional Services for the 2020 to 2025 EMS levy.

3. 2012 EMS Financial Review

Section Summary

EMS managed its financial activities in accordance with the EMS levy financial plan and policies. Savings from 2011 that were not incorporated in the 2012 adopted budget combined with 2012 savings added \$6.3 million to the ending undesignated fund balance. These savings allowed EMS to prepare for forecasted decreases in property tax revenues. Since revenues did not decline as much as forecast, EMS used the savings to buy down the tax rate necessary to fund the 2014-2019 EMS levy.

In addition, King County improved the timeliness of reimbursements from the EMS levy fund to partner fire agencies that provide ALS and BLS services during the course of our audit.

Fifth year of mandated EMS financial review completed

This section focuses on the fifth year of the EMS Division's implementation of the 2008-2013 EMS levy financial plan. As mandated by County Ordinance 15862, the primary objective of the audit is to review the 2012 EMS levy financial activities. We compared the annual revenues, expenditures, and reserve and contingency balances to the amounts identified in the annual financial plan adopted by the County Council. Our financial analysis included testing a limited sample of transactions to verify that all funds were used for the purposes intended.

EMS used levy funds appropriately; ending fund balance increased by \$6.3 million

Our analysis of actual expense data from the EBS financial system and schedules prepared by EMS management found that levy funds were utilized in accordance with EMS' policies and financial plan. EMS saved money in 2011 and 2012 to prepare for continued decline in property tax revenues. The combination of expenses lower than budgeted and revenues that did not decline as much as forecasted resulted in a \$6.3 million net increase to undesignated reserves.

Exhibit E shows that although revenues and expenditures both varied from planned amounts, the two categories largely cancelled each other out. For example, the ALS program spent \$2.8 million more than allocated because of one-time retirement expenses. RS&SI spent almost \$2.1 million less.

Total reserves and designations account for approximately \$26 million of the \$40 million ending fund balance resulting in an ending undesignated fund balance of \$13.8 million. The \$13.8 million balance exceeded the six percent of annual revenue threshold established by the County Council.

3. 2012 EMS Financial Review

EXHIBIT E: EMS Increased Ending Undesignated Fund Balance by \$6.3 Million

	2012 Budget (Financial Plan)	2012 Actual	Difference
BEGINNING FUND BALANCE	\$ 33,462,959	\$ 42,906,269	\$ 9,443,310
EMS REVENUES			
Property Taxes	59,536,069	60,022,536	486,467
All Other Revenues	694,611	963,580	268,969
EMS TOTAL REVENUES	60,230,680	60,986,116	755,436
EMS EXPENDITURES			
Advanced Life Support Services	(38,641,290)	(41,484,555)	(2,843,265)
Basic Life Support Services	(15,396,394)	(15,396,394)	-
Regional Support Services	(7,295,051)	(6,010,426)	1,284,625
Strategic Initiatives	(1,811,631)	(1,016,513)	795,118
Subtotal RS&SI	(9,106,682)	(7,026,939)	2,079,743
EMS TOTAL EXPENDITURES	(63,144,366)	(63,907,888)	(763,522)
Total Excess of Revenues Over Expenditures	(2,913,686)	(2,921,772)	(8,086)
Contingencies, Reserves, etc	(4,782,634)	(29,136)	4,753,498
ENDING FUND BALANCE	25,766,639	39,955,361	14,188,722
Total Reserves and Designations	(18,280,201)	(26,111,558)	(7,831,357)
ENDING UNDESIGNATED FUND BALANCE	\$ 7,486,438	\$ 13,843,803	\$ 6,357,365

Source: EMS Levy 2012 Adopted Budget and Financial Plan and EMS Division financial documents.

EMS increased reserves because of program savings and delays in planned spending

Although it appears that EMS increased reserves and designated funds by \$7.8 million over the budgeted amount, this amount actually reflects two main elements: program savings and funds appropriated as “Use of Reserves” that were not actually used in 2012 and instead returned to their respective reserve accounts. EMS explained the changes in reserve funds as follows:

- Added \$5.12 million to Provider/Program Balances. EMS programs (RS&SI and ALS) saved this amount in provider/program balances, which are considered designated funds. This means the money is designated for use by a particular program or ALS provider.
- Added \$2.08 million to KCM1 Equipment Replacement. KCM1 expected to spend \$1.44 million on vehicles, but the purchase was delayed. Remaining unused funds were allocated for 2011 and 2012 but not spent.
- Added \$50,791 to Operations/Dispatch Reserves. The amount used in 2012 was less than amount appropriated.

3. 2012 EMS Financial Review

- Added \$650,000 to Facilities. The amount used in 2012 was less than amount appropriated.
- Spent \$179,000 more than budgeted amount on Outstanding ALS Retirement Liability. The amount spent in 2012 was slightly higher than amount appropriated in 2012 “Use of Reserves.” EMS spent the additional funds on an invoice originally thought to be due in 2013 that turned out to be due in 2012.

See Exhibit F below for details.

EXHIBIT F: ALS Savings and Unspent Funds Appropriated as Expenses Increased Reserves and Designations by a Total of \$7.8 Million

	2012 Budget (Financial Plan)	2012 Actual	Difference
RESERVES AND DESIGNATIONS			
Encumbrances	\$ (118,317)	\$ -	\$ 118,317
Reappropriation	-	-	-
Jounal Entry Errors	-	(3,391)	(3,391)
Designations			
Prepayment	-	-	-
Provider/Program Balances	(3,511,934)	(8,629,504)	(5,117,570)
ALS Provider Loans	234,793	234,793	-
KCM1 Equipment Replacement	(602,123)	(2,678,020)	(2,075,897)
Designations from 2002-2007 Levy		(230,842)	(230,842)
Reserves for Unanticipated Inflation			
Diesel Cost Stabilization	(90,000)	(90,000)	-
Pharmaceuticals/Medical Equipment	(877,600)	(877,600)	-
Call Volume/Utilization Reserve	(977,155)	(977,155)	-
Reserves			
Medic Unit/Chassis Obsolescence	(550,619)	(550,619)	-
Salary Reserves	(1,200,000)	(1,200,000)	-
Operations/Dispatch Reserves	(370,000)	(420,791)	(50,791)
Facilities	(400,000)	(1,050,000)	(650,000)
Risk Abatement	(2,200,000)	(2,200,000)	-
Outstanding ALS Retirement Liability	(875,592)	(696,775)	178,817
Millage Reduction	(6,741,654)	(6,741,654)	-
TOTAL RESERVES AND DESIGNATIONS	\$ (18,280,201)	\$ (26,111,558)	\$ (7,831,357)

Source: EMS Levy 2012 Adopted Budget and Financial Plan and EMS Division financial documents.

3. 2012 EMS Financial Review

EMS manages reserve levels over the entire levy period

According to EMS finance staff, the EMS approach to managing reserves was chosen by the region as being most compatible with regional needs and the practicalities of a six-year levy. EMS' reserve funds are intended to roll over each year within the six-year levy period, allowing funds to flow from reserves to budgeted expenditures and back again if the expenses do not actually occur.

When each levy period comes to a close, EMS and the regional partners carefully review the finances as part of the levy planning process. At the end of each levy period, all undesignated reserve balances sunset and are re-allocated as part of the next levy's financial plan. This gives EMS an opportunity to evaluate its reserve structure each levy cycle.

King County improved contract reimbursement timeliness as a result of our audit

King County improved the timeliness of reimbursements from the EMS levy fund to partner fire agencies that provide ALS and BLS services during the course of our audit. Some partner agencies experienced cash flow problems because of delays in contract reimbursements. Because reimbursements are dependent on annual contract updates, the earliest the first payment of each year can be issued is the end of February. Additional delays result from the time lag to get updated contracts signed by the partner agencies. After the contracts are signed, the standard turnaround time for King County to issue reimbursements to partner agencies has been 30 days.

EMS and the ALS and BLS partner agencies enter into contractual arrangements each year that allow the partner agencies to be reimbursed for EMS services. Approximately 62 percent of the 2008-2013 levy funds (\$221 of \$358 million) are distributed to those agencies through contract reimbursements handled by the Finance and Business Operations Division's (FBOD) Accounts Payable Section.⁸ Partner agencies submit invoices for payments on a monthly, quarterly, or annual basis depending upon their cash flow needs. FBOD issues subsequent reimbursements to partner agencies according to its standard Net 30 payment schedule (payment of the full invoice amount in 30 days). The 30-day timeframe posed challenges to smaller agencies with limited cash flow.⁹

⁸ The remaining funds support the Regional Services and Strategic Initiatives Programs and King County Medic One.

⁹ Partner agencies may experience additional delays in receiving payments past the County's 30-day timeframe because of processing times required by their own municipality or organization.

3. 2012 EMS Financial Review

Initially, FBOD was not sure how to classify the contracts with EMS partner agencies, so it used the standard Net 30 default payment schedule when accounts were established in the previous ARMS financial system. It continued to apply the default schedule when the County transitioned to EBS. However, FBOD paid some types of contracts immediately, such as Exempt Contracts with government agencies, community non-profits, and others. As a result of our inquiry, FBOD changed the payment terms to allow for immediate payment of invoices submitted by all partner fire agencies. The EMS Division notified its partners of the change and will modify future contracts to reflect the change in King County's payment terms.

Appendix I

Changes in Distribution Methodology for King County and Public Health Overhead Cost Categories

King County Overhead Categories	2012 Methodology	2013 Methodology
King County Overhead	% Agency actual expenses	Salaries & Wages (Earnings)
King County OH-Finance	Transaction counts	Transaction Counts
King County OH-IT & Office of Information Resource Management (OIRM)	Number of computers	Salaries & Wages (Earnings)
Public Health Overhead Categories	2012 Methodology	2013 Methodology
Office of The Director	FTE	Salaries & Wages (Earnings)
Board of Health	FTE	Salaries & Wages (Earnings)
Public Information	FTE	Salaries & Wages (Earnings)
Admin/Planning Staff	FTE	Salaries & Wages (Earnings)
Management Info Systems	Number of computers	Salaries & Wages (Earnings)
EDP Replace Contingency	Number of computers	Salaries & Wages (Earnings)
Contracts, Procurements, Real Estate	Number of contracts	Number of Contracts
Business Standard/ Accountabilities Office	FTE	Salaries & Wages (Earnings)
Facilities Management	FTE	Salaries & Wages (Earnings)
Consolidated Contract Oversight	% Consolidated Contract budgeted revenue	Salaries & Wages (Earnings)
Medicaid Administrative Match	% Medicaid Administrative Match budgeted revenue	% Medicaid Administrative Match Budgeted revenue
Distribution Center	FTE	Salaries & Wages (Earnings)
Accounting Services	Transaction counts	Transaction Counts
Budget/Financial Planning	Transaction counts	Transaction Counts
Human Resources	FTE	Salaries & Wages (Earnings)
Payroll Services	FTE	Salaries & Wages (Earnings)

Source: Department of Public Health.

Appendix 2

Public Health Overhead Cost Category Descriptions and 2013 Distribution Methods

Account Name	Description of Activities	Method of Public Health Distribution	Method of EMS Distribution
Accounting, Budget, & Financial Services	Consisting of the Chief Financial Officer and all their direct and indirect reports, this unit reports on financial operations, maintains internal controls, performs reconciliations to ensure accurate data, and interfaces with various auditors to ensure transparency in the department's operations.	Number of Transactions	Number of Transactions
Administration and Planning Staff	Serves as the tactical hub for implementing executive and departmental leadership initiative. Activities include preparing the annual budget request, drafting long-term goals, and defining optimal operational strategy through the Public Health Operational Master Plan. Also coordinates the department's operations and its technology needs with KCIT.	% of S&W (Earnings)	% of Budget
Board of Health	Provides elected and appointed governance to the department. County Council participation on the Board ensures coordination between the two legislative bodies, and gives Public Health a conduit for frequent communication of strategy and results.	% of S&W (Earnings)	RS&SI Only
Compliance, Business Standards, and Accountability	Conducts HIPAA compliance training, policy development, and enforcement. Coordinates the response to public disclosure requests, manages the department's human subjects program for researchers, assesses and manages risks for claims and litigation, and maintains the department's policy guidance compendium.	% of S&W (Earnings)	% of S&W (Earnings)

Appendix 2 (continued)

Account Name	Description of Activities	Method of Public Health Distribution	Method of EMS Distribution
Consolidated Contract Oversight	The single employee represented by this cost pool administers the contract between the Washington State Department of Health and Public Health – Seattle and King County. This contract has regular amendments (approximately every other month) which require both legal and executive review, and reconfiguration of the department’s accounting systems. The contract provides over 200 distinct funding streams to the department.	% of S&W (Earnings)	% of S&W (Earnings)
Contracts and Real Estate	Manages the development and execution of legal contracts between Public Health and its community partners. Work also includes providing oversight for the procurement of goods, services, and fleet management.	Contract Counts	Contract Counts
Distribution Center	Leverages volume pricing and central inventory management to improve the efficiency of Public Health’s operations. Products handled through the distribution center include administrative supplies (paper, pens, etc.), medical supplies (nitrile gloves, masks, etc.), and courier services for time-sensitive deliveries.	% of S&W (Earnings)	% of S&W (Earnings)
Facilities Management	Handles operational aspects of Public Health’s facilities, as well as all off-site leases for facilities located on property not owned by King County. Such facilities include medic units for EMS, clinical locations for Community Health Services, and administrative/office space for Environmental Health Services.	% of S&W (Earnings)	RS&SI Only
Human Resources	Provides employee and management support services. Activities include recruitment, onboarding, performance management support, consulting services, medical leave administration, collective bargaining and contract administration, as well as employee development.	% of S&W (Earnings)	% of S&W (Earnings)

Appendix 2 (continued)

Account Name	Description of Activities	Method of Public Health Distribution	Method of EMS Distribution
Information Technology	Maintains data networks, manages software licenses, and supports Public Health employees with technology training, direct assistance, and software customization/development.	% of S&W (Earnings)	Computer Equivalents
Office of the Director	Provides strategic direction for all departmental activities, and serves as primary liaison to the County Executive and county strategic planning. Coordinates divisions in applying the department's overall mission of reducing health disparities in the county.	% of S&W (Earnings)	% of Budget
Payroll Services	Translates timesheet hours into paychecks. Manages special pay types (longevity, shift differential, uniform allowances, paramedic guaranteed hours, etc.) in accordance with each unit's collective bargaining contract, leave balances in accordance with various policies, and calculates overtime pay.	% of S&W (Earnings)	% of S&W (Earnings)
Public Information	Communicates to inform and educate the public and stakeholders, advances web and digital technologies (including social media), produces video content, leads crisis and emergency communications, and promotes employee communications through newsletters and informational presentations.	% of S&W (Earnings)	% of S&W (Earnings)

Source: Public Health – Seattle & King County and the Emergency Medical Services Division.

Executive Response



King County

Dow Constantine

King County Executive

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KING COUNTY AUDITOR

SEP 18 2013

RECEIVED

September 18, 2013

Kymber Waltmunson
King County Auditor
Room 1033
COURTHOUSE

Dear Ms. Waltmunson:

Thank you for your September 4, 2013 letter and the opportunity to review and comment on the proposed final report of the EMS Levy 2012 Financial and Compliance Audit. This is the fifth and final review conducted on the Medic One/EMS 2008-2013 levy, as authorized by King County Council Ordinance 15862.

As in previous years, the audit examined the EMS Division's financial practices and compliance with Council-adopted levy policies and financial plan. Unique to this year's audit was the review of the major drivers accounting for an increase in overhead charges to the EMS levy fund and how the EMS Division allocated overhead within the Division. Staff also returned to a recommendation from a previous audit concerning performance measures and outcomes, analyzing data supporting the decision to convert 2008-2013 Strategic Initiatives into ongoing regional services for the next levy span. A final task was to assess the timeliness of contract reimbursements to our EMS partners.

I am pleased to note that for the fifth year in a row the findings of the audit are supportive. The review demonstrates once again that the EMS Division manages its financial operations in accordance with the EMS levy financial plan and policies. The Auditor found that overhead charges to EMS and its programs were distributed in a manner consistent with best practices. Finally, the review acknowledged the Division's undertaking, as recommended in the 2010 audit, to more conclusively identify and communicate the efficiencies that Strategic Initiatives provide the system. It recognized that there were greater accountability and transparency of the benefits, but found that cost savings were not consistently quantified. In addition, subsequent to the inquiries made by the Auditor, the County has already changed the payment terms for invoices, accelerating the timing of payments and diminishing cash flow problems for EMS partners.



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Executive Response (continued)

Kymber Waltmunson
September 18, 2013
Page 2

We agree with the intent of the three recommendations from the Financial Review and Performance Audit of the 2012 Emergency Medical Services Levy. The Consolidated Contracts Oversight overhead category will be reviewed by Public Health for consideration for merger into the Accounting, Budget, and Financial Services category to increase equity for the EMS Division. The overhead costs affiliated with Facilities Management will be extended to King County Medic One to better reflect the actual benefits received by that program. The EMS Division will further quantify the financial benefits of Strategic Initiatives where applicable. Attachment A identifies the implementation schedule for our response to the recommendations.

The region expects – and deserves – accountability in the use of EMS levy funds. Your annual audits are powerful tools in demonstrating to the public that their tax dollars are being used appropriately and with integrity. We look forward to working with the Auditor's office for the two scheduled audits over the span of the 2014-2019 Medic One/EMS levy.

As always, I appreciate the great level of cooperation and support that has occurred between the King County Auditor's Office, Public Health – Seattle & King County and EMS Division management and staff, and the numerous EMS partner agencies. If you have any questions regarding this response, please contact Jim Fogarty, Emergency Management Services Division Director, at 206-263-8579.

Sincerely,



Dow Constantine
King County Executive

Enclosure

cc: Fred Jarrett, Deputy County Executive, King County Executive Office (KCEO)
Rhonda Berry, Assistant Deputy County Executive, KCEO
Dwight Dively, Director, Office of Performance, Strategy and Budget (PSB)
Tyler Running Deer, Budget Manager, PSB
Katherine Cortes, Budget Analyst, PSB
Carol Basile, Deputy Director, Finance and Business Operations, Department of Executive Services
David Fleming, MD, Director and Health Officer, Public Health—Seattle & King County (PHSKC)
Jim Fogarty, Director, Emergency Medical Services Division PHSKC
Cindy West, Chief Financial Officer, PHSKC
Eben Sutton, Controller, PHSKC

Executive Response (continued)

Attachment A

Recommendation	Agency Position	Schedule for Implementation	Comments
<p>1. We recommend that Public Health merge the Consolidated Contracts Oversight overhead category into the Accounting, Budget, and Financial Services category (which is distributed by transaction count instead earnings) to increase equity. Emergency Medical Services (EMS) represents 11.6 percent of the department's earnings, but only 3.3 percent of its transaction count. This action would reduce EMS' share of Consolidated Contracts Oversight by 72 percent without Public Health incurring any additional cost.</p>	<p>Concur</p>	<p>In 2014, develop options/methods for distributing these two post pools with no financial impacts to Public Health -Seattle & King County. This change will be reflected in the 2015 budget and subsequent budgets.</p>	<p>The EMS Division will work closely with Public Health - Seattle & King County leadership for consideration and action.</p>
<p>2. We recommend that the Emergency Medical Services Division distribute the Facilities Management overhead cost category using the earnings-based or other equitable method to reflect the actual benefit received by KCM1.</p>	<p>Concur</p>	<p>Redistribute the cost category in 2013 to be reflected in the 2014 budget.</p>	

Executive Response (continued)

Recommendation	Agency Position	Schedule for Implementation	Comments
3. We recommend that EMS develop methods for quantifying the financial benefits of its strategic initiatives intended to contain costs or gain efficiencies during the first year of the 2014 to 2019 levy cycle. The financial benefits should be reported consistently in EMS Annual Reports presented to the Council and considered prior to expanding initiatives into ongoing Regional Services for the 2020 to 2025 EMS levy.	Concur	Assess current and new strategic initiatives in 2014; conduct cost analysis; report in annual report to King County (KC) Council due by September 1, 2014, and subsequent reports.	

Statement of Compliance, Scope, Objective & Methodology

Statement of Compliance with Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Scope and Objectives

The objectives for the financial review and performance audit of King County's Emergency Medical Services Division were to:

1. Assess the major drivers in the increase in indirect and overhead assessments to the EMS levy fund from 2012 to 2013, and review how the EMS Division allocates those assessments to its programs.
2. Evaluate the data and analysis supporting the expansion of strategic initiatives into regional services and the selection of new strategic initiatives.
3. Review the 2012 EMS levy financial activities and compare the annual revenues, expenditures, and reserves to the amounts identified in the annual financial plan adopted by the King County Council.
4. Assess the timeliness of contract reimbursements and the effect, if any, on the regional partners.

Methodology

To achieve the objectives noted above, the King County Auditor's Office interviewed Public Health, EMS, and KCM1 leadership, management, and staff. We conducted quantitative analyses of overhead charges from King County to Public Health, Public Health to EMS, and EMS to KCM1 and RS&SI. This included analyzing how distribution methods compare to best practices and the effects on EMS and its programs of the large increase in overhead charges between 2012 and 2013. We also followed up on our 2010 recommendation to increase the accountability and transparency of the Strategic Initiative Program by developing performance measures. We contracted with a certified public accountant to perform the annual financial review of 2012 data. We analyzed and presented these data in conjunction with our assessment of the timeliness of ALS and BLS contract reimbursements.

Scope of Work on Internal Controls

We assessed internal controls relevant to the audit objectives. We satisfied these objectives by performing comparative analysis, testing selected transactions, and obtaining support for revenue, expenditure, and reserve balance calculations. We also reviewed relevant ordinances, financial policies, plans, and procedures related to and controlling the use of the EMS levy.

List of Recommendations & Implementation Schedule

Recommendation 1: We recommend that Public Health merge the Consolidated Contracts Oversight overhead category into the Accounting, Budget, and Financial Services category (which is distributed by transaction count instead of earnings) to increase equity.

Implementation Date: In 2014, develop options/methods for distributing these two post pools with no financial impacts to Public Health -Seattle &King County. This change will be reflected in the 2015 budget and subsequent budgets.

Estimate of Impact: Increased equity in overhead cost distribution by reducing EMS' share of Consolidated Contracts Oversight (for which it receives very limited benefit) by 76 percent without Public Health incurring any additional cost.

Recommendation 2: We recommend that the Emergency Medical Services Division distribute the Facilities Management overhead cost category using the earnings-based or other equitable method to reflect the actual benefit received by King County Medic One.

Implementation Date: Redistribute the cost category in 2013 to be reflected in the 2014 budget.

Estimate of Impact: Increased equity by including KCM1 in the distributed cost for Facilities Management, for which it currently receives some benefit but does not pay.

Recommendation 3: We recommend that the Emergency Medical Services Division develop methods for quantifying the financial benefits of its strategic initiatives intended to contain costs or gain efficiencies during the first year of the 2014 – 2019 levy cycle. The financial benefits should be reported consistently in EMS Annual Reports presented to the Council and considered prior to expanding initiatives into ongoing Regional Services for the 2020 to 2025 EMS levy.

Implementation Date: Assess current and new strategic initiatives in 2014; conduct cost analysis; report in annual report to King County (KC) Council due by September 1, 2014, and subsequent reports.

Estimate of Impact: Increased accountability and transparency in the selection of strategic initiatives for expansion into regional services.